

IFRS 17

Insurance Contracts

UK Endorsement Webinar

Darrel Scott, IASB member

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

1

Overview and timeline of IFRS 17

2

Targeted amendments to IFRS 17
(with focus on issues raised by UK stakeholders)

3

Amendments considered but not made
(with focus on issues raised by UK stakeholders)

4

Update on IASB support for implementation

Overview and timeline of IFRS 17



More

useful and transparent information



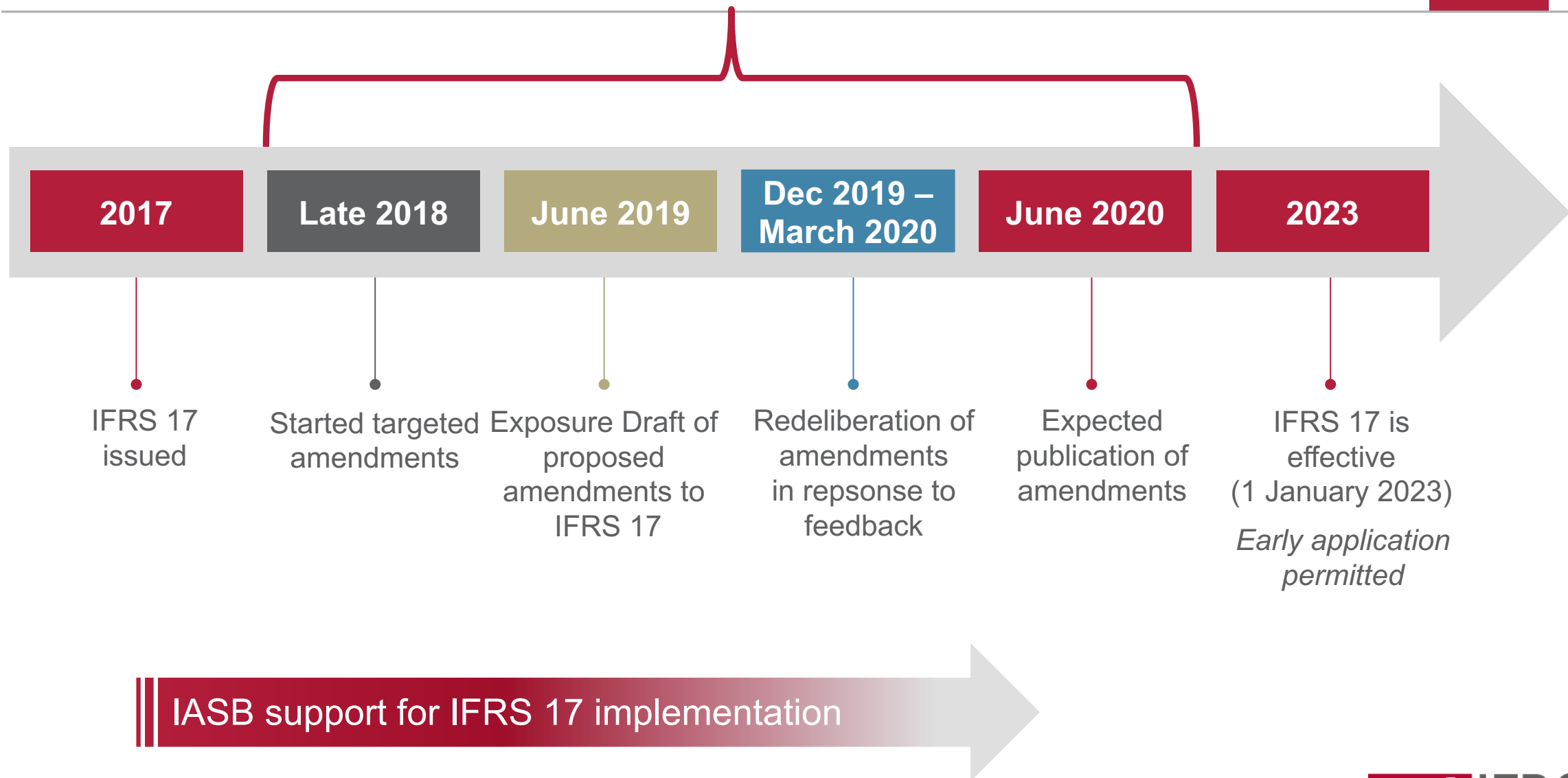
Better

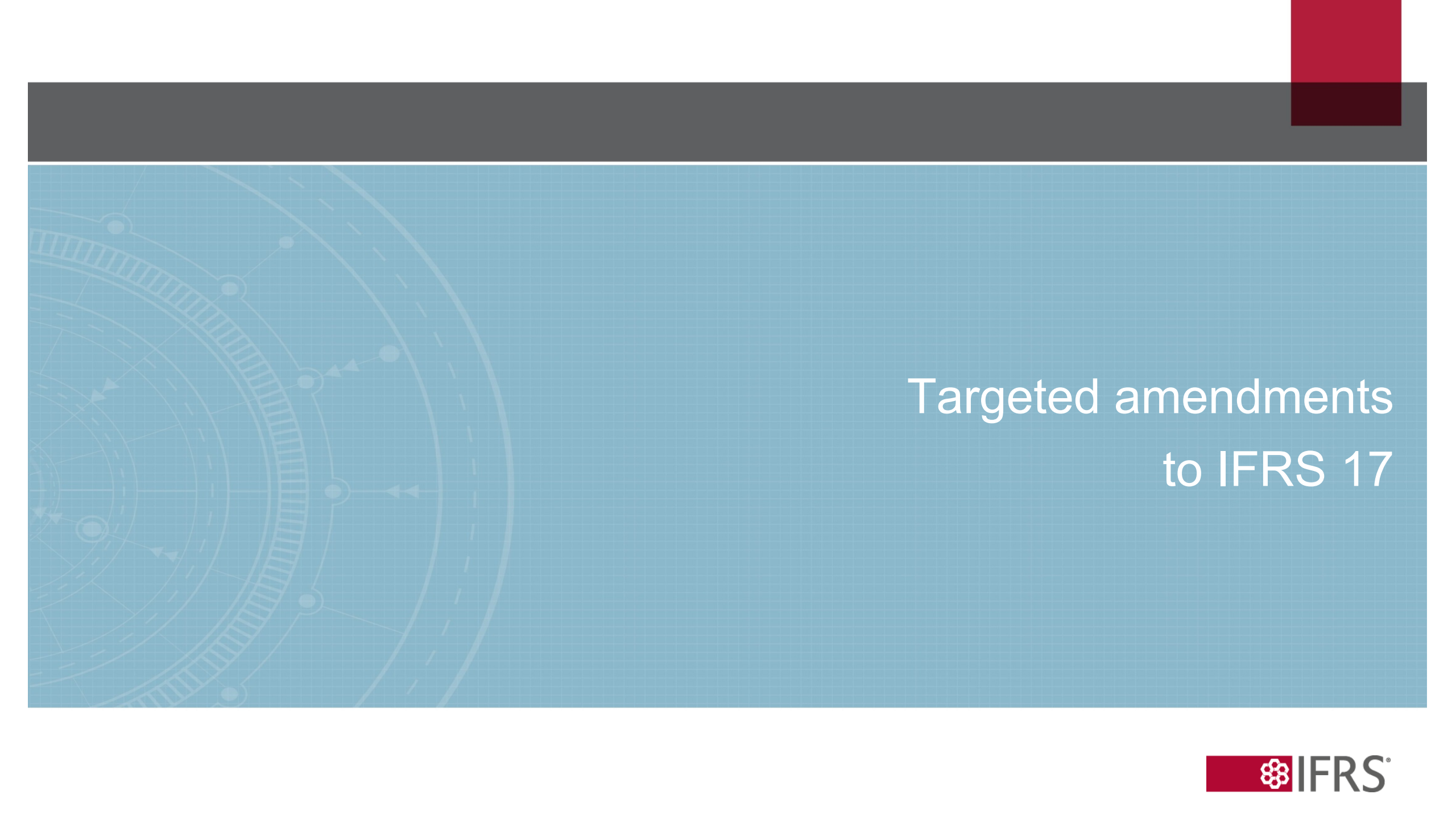
information about profitability

- Requires **consistent accounting** for all insurance contracts
- Based on a **current measurement** model
- Provides useful information about the **profitability** of insurance contracts
- Presents **comparable** data across companies
- Assists investors to fulfil **stewardship** responsibilities

IFRS 17 timeline

5





Targeted amendments to IFRS 17

Why is IASB amending IFRS 17?

7



To aid companies implementing the new requirements

The targeted amendments

address many of the
concerns and challenges
raised by companies
implementing IFRS 17

reduce IFRS 17 application
costs for companies and
make it easier for companies
to explain the results of
applying IFRS 17

Overall feedback on the Exposure Draft

8

Overall support for IASB considering concerns and challenges raised since IFRS 17 was issued and proposing targeted amendments to IFRS 17



Outreach
July – September 2019

70 meetings in
14 jurisdictions

Some stakeholders think IASB should extend the scope of some of the proposed amendments



123
comment letters

Some stakeholders commented on

- some areas IASB considered and for which amendments to IFRS 17 were not proposed in the Exposure Draft
- new implementation challenges specific to transactions / jurisdictions

Key Amendments*

9

Amendments finalised as proposed

Scope exclusion for Loan
contracts

1

Coverage units
for VFA contracts

2

Proposed amendments finalised with some changes

Scope exclusion for
credit card contracts and
similar contracts

3

Coverage units for
general model contracts,
disclosures, terminology

4

Reinsurance covering
loss-making contracts

5

Additional amendments

Choice relating to interim
financial statements

6

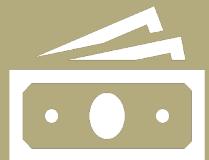
Policyholder's tax

7

* Focus on issues raised by UK stakeholders

Amendments finalised as proposed

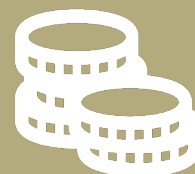
10



Scope exclusion for some loans

1

- Permitted to apply **either IFRS 17 or IFRS 9** to insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract
- Insurers that invest in **equity release mortgages** can continue to apply IFRS 9 accounting to these investments



Coverage units for VFA contracts

2

- For insurance contracts with direct participation features, recognise the contractual service margin in profit or loss considering both **insurance coverage** and **investment-related service**

Scope exclusion

Credit card contracts and similar contracts



Proposed amendment

- Requirement to **apply IFRS 9 to credit cards** that meet the definition of an insurance contract **if the company does not reflect an assessment of the insurance risk** associated with an individual customer in setting the price of the contract with that customer
 - for example, credit cards that provide insurance coverage for free

Supporting arguments

- ✓ General agreement that the scope exclusion would **reduce implementation costs**

Findings and suggestions

- ✗ Extend to **other banking products**
- ✗ Concerns that when the insurance is contractual credit cards **may not meet SPPI**

IASB decision

- Extend exclusion to **similar contracts**
- Separate **contractual insurance** and apply IFRS 17 to it



Proposed amendment

- **Recognition** of CSM **both** when insurance coverage and **any services relating to investment activities** are provided
- **Disclosures**
 - **timing** of expected recognition in profit or loss of remaining contractual service margin
 - **judgement used to determine the profit** generated by any service relating to investment activities, in addition to the insurance coverage

Supporting arguments

- ✓ General agreement that **services related to investment activities** need to be considered

Findings and suggestions

- ✗ Criteria for investment-return service **too narrow**
- ✗ Complexity of **multiple service contracts**

IASB decision

- Confirm proposals, but refer to 'investment return'
- Include **investment activity costs** in fulfilment cash flows even if no investment-return service

5 Reinsurance covering loss-making contracts

13



Proposed amendment

- Recognition of a **gain** on reinsurance contracts held **to the extent**:
 - Entity **recognises losses** on onerous insurance contracts **at initial recognition**
 - the reinsurance contracts
 - cover the losses of **underlying contracts on proportionate basis** (ie fixed % of claims is recovered)
 - are **entered into before or at the same time** the onerous underlying contracts are issued

Supporting arguments

- ✓ Support for the **direction** of the amendment to **reduce accounting mismatches**

Findings and suggestions

- ✗ Request to **extend the population** of reinsurance contracts to which the amendment would apply
- ✗ Concerns that the amendment might be **open to abuse**

IASB decision

- Extend amendment to **all reinsurance contracts held**

6 Interim financial statements

14

Exposure Draft

- Considered **concerns/challenges** arising from treatment of accounting estimates made in previous interim financial statements (period to period)
- However, **no change proposed** in the Exposure Draft

Feedback

- Significant **implementation/application costs** from:
 - maintaining two sets of accounting estimates, or
 - changing practice (year-to-date to period-to-period)

IASB decision

- Make **accounting policy choice**

7 Policyholder's tax

15

Exposure Draft

- No change proposed in Exposure Draft
- Entity excludes income tax payments and receipts **not** paid or received in a fiduciary capacity from fulfilment cash flows (FCF)

Feedback

- Some income tax payments and receipts, although not paid or received in a fiduciary capacity, are **costs specifically chargeable** to the policyholder under terms of contract

IASB decision

- Amended to **exclude** income tax payments or receipts **not specifically chargeable to policyholder** from FCF



Amendments considered but not made

*Focus on issues raised by
UK stakeholders*

Discount rate used to adjust the CSM

17

IFRS 17 requirement

- **General model** contracts:
 - **fulfilment cash flows** measured at **current discount rate**
 - resulting adjustment to **CSM** (for changes related to future service) measured at **locked-in discount rate**

Concerns / views

- **Gain or loss**—difference between change to FCF and change to CSM—**difficult to explain**
- Some consider current discount rate would **reduce operational burden** and would be **conceptually appropriate**

IASB rationale

- **Both** locked-in rates and current rates **have complexities**
- Use of **locked-in rate provides a faithful representation** of revenue earned as a company provides services

Retrospective application of risk mitigation option

18

IFRS 17 requirement

- Entity **prohibited** from applying risk mitigation option for periods **before the date of transition** to IFRS 17
- As amended, entity **can use fair value approach** in some circumstances

Concerns / views

- Concerns regarding possible **distortion affect**
- Disagreement with Board **cost-benefit analysis**
- Suggest '**all or nothing approach**'

IASB rationale

- Risk of the **use of hindsight and cherry picking**
- '**All or nothing approach**' **unachievable** in most cases
- Board's previous **cost-benefit analysis holds**

Contracts acquired in their settlement period

19

IFRS 17 requirement

- Contracts where **event has already occurred** but financial effect still uncertain: **insured event is** determination of cost of claims
- Liability for claims settlement of contracts acquired is classified as liability for remaining coverage until ultimate cost is known

Concerns / views

- Entities that typically issue contracts under premium allocation approach **need to develop general model systems**
- Different treatment for contracts acquired and contracts issued

IASB rationale

- IFRS 17 **gives useful information** about the contract the acquirer entered into **at acquisition date**
- An exception to definition of insured event **would be a fundamental change**

Contracts that change their nature over time

20

IFRS 17 requirement


- Classification of contracts is not reassessed subsequently
- General model or variable fee approach applies for the entire duration of the contract

Concerns / views

- Accounting mismatches could arise for contracts that change their nature (for eg due to policyholder exercising an option)
- Suggestions to optionally reassess contract, or to exclude cash flows from contract boundary, or separate components

IASB rationale

- Suggestions would significantly reduce comparability and increase complexity of IFRS 17
- Most mismatches can be reduced/eliminated applying IFRS 17



Update on IASB support for implementation

IASB support for IFRS 17 implementation

22

A comprehensive programme of stakeholder engagement and implementation support to date



Webinars



Articles and
other materials



Conferences



Transition Resource
Group (TRG)

4
meetings

127
implementation
questions

Education for

- investors
- regulators
- standard-setters
- preparers



Over 100 meetings with
investors

Informal technical discussion
with

- regulators
- standard-setters
- preparers
- auditors



Over 300 meetings
with stakeholders

Targeted amendments to

- ease implementation
- reduce implementation costs
- respond to concerns and implementation challenges



123 comment letters
70 meetings

June 2020



Issuance of the final amendments to IFRS 17

Going forward



Implementation support

- **No further** TRG meetings scheduled
- TRG has **not been disbanded** and is available for consultation by IASB if needed
- Stakeholders can **make IASB aware of implementation questions** via email to insurancecontracts@ifrs.org
- **Educational materials have been developed** in the context of IFRS 17 as originally issued
- Stakeholders should **consider information in educational materials in the context of** the forthcoming amendments

Find out more: www.ifrs.org

Follow us:  @IFRSFoundation

 IFRS Foundation
International Accounting Standards Board

 IFRS Foundation

 IFRS Foundation

Join our team: go.ifrs.org/careers